

THE OFFICIAL MAGAZINE OF BROWNFIELDS 2005

VOL. 9, ISSUE 6 DECEMBER 2005

# BrownfieldNews

[www.brownfieldnews.com](http://www.brownfieldnews.com)

## Market Forecast

## Katrina's Impact





## Does Size Really Matter?

By Todd S. Davis, Esq.

Analyzing brownfield deals over the past five years, one trend has become very obvious — size matters when it comes to brownfield transactions. While there are a number of deals that substantiate this trend, a few examples immediately come to mind with total investment based on complete build-out estimated to approach or exceed \$1 billion (see below for three examples).

Why is bigger better? The trend toward doing large brownfield transactions has both obvious and subtle origins.

### Greater Profit Opportunity

Obviously, successfully completing a large transaction (\$100 million-plus) versus a small transaction (\$1 million) has a greater gross profit potential. Assuming the typical return demanded by a brownfield developer for such a transaction, consistent with many high risk venture capital returns (for ease of calculation use a 40 percent return on investment), a \$40 million return on a \$100 million investment sure beats a \$400,000 return on a \$1 million investment. Therefore, in terms of gross income potential, larger transactions are often easier to attract investment capital for than smaller deals.

### Decreased Risk on Environmental Cleanup Cost

An interesting factor that might not be so obvious is that substantial cleanup costs, as an absolute component of transaction costs, may actually be easier to absorb in a larger transaction. Additionally, bigger deals can actually better absorb the risk of cost increases on this line item.

For example, assume remedial costs, anticipated to be \$1

million on a \$10 million transaction, double to \$2 million. This change represents an increase of 10 percent of total transaction costs — a very big number. Alternatively, assume remedial costs double from \$10 million to \$20 million on a \$1 billion deal. Arguably, while large in terms of absolute cost, a \$10 million increase on a \$1 billion deal represents only a 1 percent increase in total deal costs.

Further, in a large deal, it is typically easier to justify the use of environmental insurance to reduce the risk of large remedial cost increases. Consequently, larger brownfield transactions offer the opportunity for savvy deal makers to absorb a greater margin of error than on small deals, as well as the flexibility to employ cost controlling tools such as environmental insurance.

### Easier to Build Momentum

As we have experienced, it is often easier to build community momentum for bigger deals than smaller deals. Such deals create large future tax increases, and often eliminate more significant blight than small deals. Hence, given the opportunity, sophisticated developers and investors prefer large brownfield transactions available in the marketplace.

Certainly, big deals can present big challenges and a completely different set of complexities than more modest deals. But understanding the fundamental reasons behind the trend to do mega-transactions provides insight as to why this often-debated truism — size matters — will continue in the brownfield development arena. **BFN**

Todd S. Davis, Esq., is the CEO of Hemisphere Development LLC.

### Lakeview Bluffs, Lake County, Ohio



Hemisphere Development, in collaboration with the IMG sports marketing and management agency, currently is developing a 1,100-acre parcel 30 minutes outside of Cleveland. The development will provide instruction in all major sports along with comprehensive health and wellness programming. This complex will emulate the IMG Academies located in Bradenton, Florida, and include an estimated 2,300 housing units, a boutique resort hotel and a health and fitness campus.

### Atlantic Station, Atlanta, Georgia



Jacoby Development, Inc. is currently developing the Atlantic Station project in Atlanta. The project envisions an impressive mix of retail, housing and entertainment on a former steel mill location.

### Meadowlands, New Jersey



Cherokee Investment Partners has announced the development of several projects in New Jersey, including their Meadowlands and Camden developments. The Camden proposal includes 500,000 square feet of retail space, a marina and 6,000 housing units.